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C O N F I D E N T I A L BRATISLAVA 000815

SIPDIS

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SUBJECT: MORE CABINET SHAKEUPS: LABOR OUT, ECON IN

REF: BRATISLAVA 683

Classified By: DCM Lawrence Silverman for Reasons 1.4 (B) and (D)

¶1. (C) SUMMARY - Labor Minister Ludovit Kanik announced his resignation October 5 after admitting that he made a mistake in applying for EU Funds for the refurbishing of a hotel that he owns in the resort town of Banska Stiavnica. Kanik's announcement will complicate his efforts to formalize a de facto merger of his Democratic Party with PM Dzurinda's SDKU in coming months. His departure comes on the heels of the formal appointment of former ANO MP Jirko Malcharek as Minister of Economy, replacing the ousted Pavol Rusko. END SUMMARY.

LABOR MINISTER OUT OF A JOB

¶2. (SBU) Minister of Labor, Social Affairs and Family Ludovit Kanik announced his resignation at a hastily called press conference October 5. The surprise announcement follows two days of heavy media coverage of his recent application for SKK 22 million (USD 680,000) from EU Structural Funds for reconstruction of a Hotel he owns in Banska Stiavnica in Central Slovakia. In the press conference Kanik admitted his mistake in asking for EU money, but stated that he plans to continue his work of integrating the parties of the center right in Slovakia.

¶3. (C) Kanik is the chairman of the Democrat Party (Demokraticka Strana - DS), a Bratislava-centric intellectual party which has a small following. DS is closely associated with SDKU (Finance Minister Miklos' was formerly a member of DS), which nominated Kanik as Minister after supporting the SDKU in the 2002 elections. During an October 4 courtesy call with the Ambassador, Kanik said that DS was finalizing technical preparations for a merger with SDKU, which would be completed through an "extraordinary party congress" in December. Some of the DS leadership, led by Vice-Chairman Hochel, does not agree with this move and wants to maintain DS as an independent party, even if they are expected to poll well below the five percent Parliamentary threshold. The DS leadership will meet October 6, but do not have the power to recall Kanik from his position as chairman of the party.

¶4. (C) Kanik withdrew his application for EU funds on September 14 when it was also revealed that a real estate company represented by his brother, Norbert Kanik, had received an EU grant for SKK 150 million (around USD 5 million) to develop a ski center near Banska Stiavnica. According to press reports, a National Agency for Tourism official involved in making this grant, Jan Rudolfe, has since been given a position in the Ministry of Labor as Director for the EU Fund for Social Development. Kanik previously faced several scandals for failing to pay mandatory payroll contributions for his employees, but his debts were pardoned before he became minister in 2002. He was also accused of corruption for his role in several large privatizations in the late 1990's when he was President of the National Property Fund.

¶5. (C) SDKU Deputy Chairman (and Parliamentary whip) Milan Hort told us that Kanik made a mistake asking for money from EU funds for his companies, but noted that he did the right thing to withdraw his application after he was criticized in the press. Hort commented that Kanik's activities cannot be compared with those of former Minister of Economy Pavol Rusko, who denied any mistakes until he was sacked (reftel). Still, in Hort's opinion, it is important for Kanik to leave, to save SDKU and Prime Minister Dzurinda from criticism in the run-up to next year's national elections, especially given the Slovak public's view of politicians as inherently corrupt. According to Victor Niznansky, GOS Plenipotentiary for Public Administration Reform and former vice-chairman of the DS party, Dzurinda and Kanik held discussions well into the night (October 4) with Dzurinda arguing that Kanik needed to step down. Not surprisingly, Dzurinda told the press that Kanik's resignation was entirely the minister's idea, not the result of pressure.

¶6. (C) As Minister, Kanik managed the reform of both the social and pension systems. The radical overhaul of the pension system is widely acknowledged as having been successful, while the reform of social and welfare benefits

is more controversial and still considered to be a work in progress. In an attempt to stress his links with the recent reforms, Kanik stated his resignation will take effect after a conference on pension reform, which starts October 12. Miroslav Beblavy, a member of SDKU and the current State Secretary for Labor, Social Affairs, and Justice, has been

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mentioned as a possible replacement for Kanik.

PRESIDENT FINALLY APPROVES REPLACEMENT FOR RUSKO

17. (SBU) After an almost one-month delay, President Gasparovic appointed Jirko Malcharek as the new economy minister on October 4. Malcharek is a member of the group of former ANO MP's led by Lubomir Lintner that broke from Pavol Rusko to remain with the coalition (reftel). The new economy minister was first elected to Parliament in 1998 with the Party of Civic Understanding, was a co-founder of ANO in 2001, and won a seat in Parliament as an ANO MP that same year. He has no previous experience with economic issues and is better known as the owner of a car racing company. After his appointment was announced by Gasparovic, Malcharek stated that he will work closely with Minister of Finance Miklos to complete the ongoing privatization projects in a transparent manner. One of his first priorities will be obtaining cabinet approval of new regulations for state aid to investors, which have been hastily put together after Rusko's departure.

18. (C) COMMENT: Kanik's departure, the first resignation by a cabinet minister since the 2002 elections (several have been dismissed for conflicts with the ruling coalition), is a clear indication that the campaign for Parliamentary elections is underway. Kanik has always been known as an "entrepreneurial politician" who has found his way out of difficult circumstances in the past. Although he announced his plans to continue his political activities by working to integrate the "right-wing parties," it is unlikely that SDKU will be anxious to merge with DS. Kanik is the driving force behind the union, and currently does not have the support of his own party for the merger. END COMMENT.
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